FOLLOW-UP REVIEW   **CITY AUDITOR**

Report Date:	**November 29, 2016**
Department:	**Human Resources, Safety Services Division**
Subject:	**Workers' Compensation Claims Management**
Lead Auditor:	**Kate Witek, Sr. Internal Auditor**

OBJECTIVE

The objective of this review was to determine whether the Safety Services Division effectively implemented action plans presented in their response to our September 2015 audit of Workers' Compensation Claims Management.

SCOPE AND METHODOLOGY

To accomplish our objective, we interviewed staff, reviewed departmental procedures, and analyzed claims data.

BACKGROUND

In September 2015, we issued a report on our audit of the Safety Services Workers' Compensation Claims Management program. The audit report included the following four (4) recommendations:

1. Develop detailed written policies and procedures for all essential processes.

2. Improve the cash handling process and ensure all checks received are handled in compliance with Management Policy 210.

3. Improve system security settings to prevent deletion of claims and provide an audit trail.

4. Increase management review of claim payments.

CONCLUSION

Three of the four recommendations were successfully implemented, and one (#1 above) was partially implemented. We have recommended that the department complete the ongoing task of developing written procedures for all essential processes; and they have committed to doing so. No additional follow-up review is planned at this time.

A complete list of the original corrective action plans, along with detailed information regarding their implementation status, is presented in the attached Appendix.

APPENDIX / CAP IMPLEMENTATION STATUS REPORT

✓ = Implemented   ◆ = In Progress   X = Not Implemented

Corrective Action	**Implementation Status**	
CAP#1: Policies and procedures are not in writing		
Recommendation 1-1: Management objectives should be clearly communicated in written program policies; and all essential processes in the Workers' Compensation program should be documented in detailed written procedures formally adopted by management. These documents should be regularly reviewed and updated to ensure they remain current. **Management Response 1-1**: Create and document all essential processes for the City of Mesa's Workers' Compensation program. One-hour brainstorming sessions will be held each week with the Workers' Compensation Representatives and Administrative Staff to: 1) identify processes and/or protocols specific to how the City's Workers' Compensation program is administered; and 2) create written procedures. Sessions will begin the week of September 14, 2015.	**In Progress** Safety Services has documented essential processes for the WC program and has created written policies and procedures for some processes. A Claims Handling Manual is in development, with detailed procedures created for 2 of 7 essential processes (Incident Reporting and Workers Comp Claim). Weekly brainstorming sessions are no longer being held; however, management has stated that they will work on completing the procedures.	◆
CAP#2: Cash handling processes need improvement		
Management should ensure that all checks received are handled in compliance with Management Policy 210, including but not limited to the following: **Recommendation 2-1**: Checks received in the mail should be immediately restrictively endorsed. **Management Response 2-1**: Established a chain of custody process that includes the restrictive endorsement of checks and cash items immediately upon receipt. See the Safety Service Cash Handling process document for specific details on entire process.	**Implemented** A secure chain of custody has been developed and implemented, including a requirement to immediately restrictively endorse any check received.	✓
Recommendation 2-2: Checks should never be transmitted via interoffice mail. **Management Response 2-2**: Established a chain of custody process that includes the delivery of the checks directly to Customer Service for deposit. Safety Services purchased a lock box that has been secured in the Worker's Compensation vault. If for some reason staff is unable to walk the check(s) to Customer Service for deposit immediately upon receipt, the checks will be secured in the lock box until the deposit can be made.	**Implemented** The current cash handling process requires hand-delivery of cash items to City of Mesa cashiers. Checks are kept in a secure lock box in the Safety Services vault until the deposit can be made.	✓

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Recommendation 2-3: Checks should be logged upon receipt, preferably by an employee in a position unrelated to the Workers Compensation payment process. **Management Response 2-3:** Established a chain of custody process that includes checks (cash items) being logged immediately upon receipt in Safety Services.	**Implemented** Checks received are immediately scanned/logged by Safety Services personnel unrelated to the WC payment process.	✓
Recommendation 2-4: All funds received in connection with a claim should be documented in the associated claim file, along with evidence showing the funds were properly recorded in the Workers' Compensation Fund in the City's financial system. **Management Response 2-4:** Established a chain of custody process that includes scanning and attaching the revenue receipt from Customer Service to the applicable workers' compensation claim.	**Implemented** Copies of checks, along with deposit receipts, are included in applicable claim files.	✓
CAP#3: System security settings should prevent deletion of claim records		
Recommendation 3-1: A thorough review of all RiskMaster system user roles and permissions should be performed, and the system should be reconfigured to ensure adequate controls are in place. **Management Response 3-1:** Review the RiskMaster user roles with all essential stakeholder groups.	**Implemented** RiskMaster system user roles and permissions have been reviewed with all essential stakeholder groups.	✓
Recommendation 3-2: If the System Administrator role is to remain in the operating department(s), protocols should be established to ensure effective internal controls are maintained and compliance is monitored. No end users of the RiskMaster system should have the ability to delete a claim record. **Management Response 3-2:** The ability to delete RiskMaster claims and events was temporarily removed from system user roles and permissions for all employees outside of the IT Department on 08/05/2015. Interim procedures have been implemented to include a workflow that requires the approval of the HR Department Director to approve the deletion of any claims and/or events with supporting justification documentation. All RiskMaster claim and/or event deletion requests must go through the following steps in Safety Services:	**Implemented** The ability to delete claims has been removed from all groups except the system administrator group in Safety Services. There are two users in the group. Maintaining the ability to delete claims for this user group is necessary to correct user errors, and compensating controls have been implemented to help mitigate the identified risks.	✓

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1) Any requests for deletions will be routed via email directly to the Safety Administrator for review and authorization. 2) Once approved by the Safety Administrator, the deletion request will be submitted via email to the HR Director for review and final approval. 3) Once the deletion request is authorized by the HR Director, an email confirmation will be sent to the Safety Administrator authorizing the deletion. 4) The deletion of the claim or event will be completed by the Management Assistant. 5) The Management Assistant will send a deletion confirmation email to the Safety Administrator. 6) The deletion authorization request (email chain) will then be filed in File Net. A more formal delete request and approval process will need to be created and finalized based on discussions with all stakeholders, to include the City Attorney's Office and the It Department.		
Recommendation 3-3: The RiskMaster system's activity/audit log functionality should be activated and configured to provide an adequate audit trail and to allow for monitoring of compliance with established security protocols. **Management Response 3-3**: Meet with appropriate IT personnel and RiskMaster vendor to have the system wide history tracking function turned on.	**Implemented** The history tracking/audit log function for RiskMaster has been activated.	✓
CAP#4: Management oversight of claim payments needs improvement		
Recommendation 4-1: Management should increase the number of transactions tested to raise confidence level of the post-payment review process to provide a more reliable and effective internal control. Using a test sample that provides a confidence level of 90% or above is recommended. **Management Response 4-1**: Incorporate the use of a sample size calculator to identify the number of post-payment workers' compensation transactions that will be audited each month.	**Implemented** The number of claims to be tested on a monthly basis is calculated using a confidence level of 90% or higher. Claims reviewed were initialed by the Safety Services Administrator.	✓